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APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF
CHINA

IPF:(1992-96) $176 600 000

(CPR/91/310) - Large Enterprise Management

Date of approval by the AC:[1/]	14 April 1993
Expected duration:	Three years
Proposed executing agency:	Government (China International Center for Economic and Technical Exchanges (CICETE))
Government implementing agency:	National: State Council Economic and Trade Commission (SCETC), State Commission for the Restructuring of Economic Systems (SCRES); Regional: Shanghai Municipal Government, Liaoning Provincial Government and Heilongjiang Provincial Government
Proposed UNDP contribution:	$7 000 000 Source of funds: IPF
Total UNDP budget:	$7 000 000

Project background

China's economy is one of the most dynamic in the world growing at the rate of 12.8 per cent in 1992; the gross value of its industrial output rose by more than 21 percent in the same period. While normal cyclical factors were at work, the major driving force underlying the accelerated growth arose from the market-oriented reforms and the widening of China's open door policy. Starting in early 1992 Deng Xiaoping urged China to move forward with faster economic reforms. In a series of speeches he argued that the market and economic planning were alternative methods of resource allocation and that socialism is compatible with the market. These comments unleashed a renewed effort by many to adopt pro-growth and pro-market development strategies.

In China the state-owned enterprises (SOEs) remain of vital importance to the national economy; the SOEs employ more than 45 million people and are responsible for about 65 percent of industrial output value. While the number of medium/large-scale enterprises totals only about 15,000 or 20 percent of total SOEs, they account for 56 percent of the total output for the sector. China is committed to reforming and revitalizing its SOE sector through efforts to increase the autonomy of enterprise managers and to separate ownership from management. In July 1992, the State Council announced detailed measures for "operation mechanism transformation" addressing many of the issues related to enterprise autonomy (e.g. production and management, price and wage determination, marketing of products, purchase of goods and materials, disposal of assets, etc.).

[1/] This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.

Description of project

The programme aims at assisting the Government in developing and implementing its national effort to reform and revitalize large and medium SOEs by developing and testing a sustainable model (or process) of enterprise reform which could be applied on a country-wide basis. Experiments will initially be carried out in a small number (20) enterprises in Shanghai, Heilongjiang and Liaoning. Selection of enterprises will be conducted according to criteria including: the nature of the problems confronting the enterprise, its financial health, the degree of autonomy already existing in the enterprise, etc. The programme will focus on the critical issue referred to in China as the "operational mechanism transformation" (OMT) of SOEs.

Project activities will include: (a) separate ownership and management to be achieved through conversions into joint-stock companies, formation of enterprise groups; (b) improved leadership and management skills of enterprise managers; (c) investment planning and technology management techniques; (d) international business management techniques in product development, marketing and sales to exploit new opportunities; and (e) quality management; (f) giving SOEs autonomy; (g) establishing and regulating a competitive market system; and (h) operating indirect market-oriented economic control instruments.

Each of the 20 Enterprise Management Reform (EMR) teams will be supported by a group of senior specialists recruited from advanced market economies who are well qualified in various functional areas (e.g. quality management, marketing, human resources, product development, and production) or possess specific industry skills. These senior specialists will provide their particular experience to enterprise management and the task forces as requested by enterprise management and the EMR Team Director. Selection of international advisors will be led by DPSD using UNISTAR, TOKTEN and other sources. Further management consultancy as well as other forms of technical assistance tailored to an enterprise's specific needs will be financed through a Revolving Fund. The advantages of this Fund are threefold: (i) with enterprises having to pay for specific types of assistance, they will be more discriminating in requesting only assistance which is clearly needed and could translate into higher efficiency/profitability; (ii) it supports SOEs in adopting commercial and market-oriented principles; and (iii) replenishment of the Fund enables it to service subsequent groups of SOEs, thus increasing the sustainability of this form of reform process.

Inputs

UNDP will provide approximately 100 work-months of services of international consultants; 70 work-months of services of national professionals; in-country training as well as in-country and overseas tours for enterprise and government officials; resources for the Revolving Fund and fund-raising component; and miscellaneous costs.

Financial data

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Personnel	2 820 000
Subcontract	2 150 000
Training	980 000
Miscellaneous	50 000
Unprogrammes reserve*	1 000 000
Total	7 000 000

*The unprogrammed reserve will be allocated based upon the programmes results and in light of the resource picture existing in early 1994. It is intended that the allocation will be used to include additional enterprises, cover unforseen expenditures of the EMR teams and other highly relevant targeted uses.

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